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# 1964

# MERCANTILE STORES COMPANY, INC.

## AND SUBSIDIARIES

## *Annual Report*

FOR THE YEAR ENDED JANUARY 31, 1965

# MERCANTILE STORES COMPANY, INC.

## LIST OF OUR STORES

BACON'S (Estab. 1845)
- Louisville, Ky.
  - St. Matthew's
  - Shively
  - Jeffersonville, Ind.

CASTNER-KNOTT (Estab. 1898)
- Nashville, Tenn.
  - Green Hills
  - Donelson
  - Shelbyville

CREWS-BEGGS (Estab. 1888)
- Pueblo, Colo.

O. J. De LENDRECIES (Estab. 1879)
- Fargo, North Dakota

GAYFER'S (Estab. 1879)
- Mobile, Ala.
  - Springdale
  - Pensacola, Fla.
  - Edgewater, Miss.

GLASS BLOCK (Estab. 1887)
- Duluth, Minn.

HENNESSY'S (Estab. 1885)
- Butte, Mont.
  - Helena
    (Opened March, 1965)

JONES (Estab. 1887)
- Kansas City, Mo.
  - Blue Ridge
  - Troost Ave.
  - Independence
  - Prairie Village, Kans.
  - Pittsburg, Kans.
  - Muskogee, Okla.

JOSLIN'S (Estab. 1873)
- Denver, Colo.
  - Englewood
  - Lakewood
  - Greeley
  - Merchants Park
  - Boulder
  - Aurora

LAZARUS (Estab. 1889)
- Wilkes-Barre, Pa.

LION (Estab. 1857)
- Toledo, Ohio
  - Westgate

MACDOUGALL'S (Estab. 1875)
- Seattle, Wash.
  - Wenatchee
    - *Appliance Stores:*
      - West Seattle
      - Kirkland
      - Lake City
      - Greenwood Ave.

MCALPIN'S (Estab. 1852)
- Cincinnati, Ohio
  - Kenwood
  - Western Hills
  - Cherry Grove
  - Middletown

MONTGOMERY FAIR (Estab. 1868)
- Montgomery, Ala.
  - Eastbrook
  - Opelika

PEOPLES (Estab. 1888)
- Tacoma, Wash.
  - Yakima
  - Lakewood
  - Port Angeles

THE RIGHT HOUSE (Estab. 1843)
- Hamilton, Ontario, Canada
  - Brantford
  - Galt
  - St. Catharines

ROOT'S (Estab. 1856)
- Terre Haute, Ind.
  - Sullivan
  - Robinson, Ill.
  - Paris, Ill.

J. B. WHITE (Estab. 1874)
- Augusta, Ga.
  - National Hills
  - Aiken, S. C.

J. B. WHITE (Estab. 1874)
- Columbia, S. C.—Richland Mall

●

*Represented in the markets by*
MERCANTILE STORES COMPANY, INC. (N. Y.)
(A wholly owned subsidiary company)
128 W. 31st Street, New York, N. Y.
Cable Address: *Merstore*

# MERCANTILE STORES COMPANY, INC.

## BOARD OF DIRECTORS

JOHN E. BIERWIRTH
F. K. BRADLEY
MORGAN A. CASEY
ASHTON HAWKINS
HAROLD W. JOCKERS
F. G. KINGSLEY
GERRISH H. MILLIKEN, JR.
MINOT K. MILLIKEN
ROGER MILLIKEN
GEORGE S. MOORE
R. NELSON SHAW
RALPH S. STILLMAN

## OFFICERS

HAROLD W. JOCKERS, *Chairman of the Board*
R. NELSON SHAW, *President*
F. G. KINGSLEY, *Chairman of the Executive Committee*
F. K. BRADLEY, *Vice-Chairman of the Board*
MORGAN A. CASEY, *Vice-President & Treasurer*
CHARLES E. STALLINGS, *Vice-President*
FREDERICK W. BLECKWENN, *Vice-President*
EDWARD J. SHARKEY, *Vice-President*
ABBOTT D. CHURBUCK, *Vice-President*
R. S. KIZER, *Controller*
ASHTON HAWKINS, *Secretary*

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*Stock Transfer Agent*

CHEMICAL BANK NEW YORK TRUST COMPANY
20 Pine Street
New York

*Registrar of Stock*

FIRST NATIONAL CITY BANK
399 Park Avenue
New York

## FINANCIAL HIGHLIGHTS

## IN BRIEF

| | *1964* (Year ended Jan. 31, 1965) | *1963* (Year ended Jan. 31, 1964) |
|---|---|---|
| Sales | $207,260,905 | $192,408,732 |
| Sales Increase Percentage | 7.7% | 4.7% |
| Profit Before Income Taxes | $14,252,235 | $11,160,157 |
| Percent to Sales | 6.9% | 5.8% |
| Net Profit | $7,132,235 | $5,370,157 |
| Profit Per Share | $2.42 | $1.82 |
| Dividends Paid: | | |
| Per Share | $1.20 | $1.00 |
| Percentage of Profit Paid Out | 50% | 55% |
| Cash Flow: | | |
| Amount in Dollars | $10,572,000 | $8,763,000 |
| Amount Per Share | $3.59 | $2.97 |
| Book Value Per Share | $21.45 | $20.23 |
| Working Capital | $39,567,014 | $37,533,095 |

# MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street
Wilmington, Delaware
April 9, 1965

*Fellow Stockholders:*

This is the annual report for the year ended January 31, 1965, our forty-sixth year. The highest levels ever reached by our Company were attained in sales, profits and dividends paid.

Sales totaled $207,260,905. Net profit for the year was $7,132,235. Earnings per share amounted to $2.42. Dividends paid were increased by 20 cents per share to $1.20 for the year.

## Profit

The year just closed was a very successful year for the department store industry in general. Our profit for the year was the highest in the history of the Company by a considerable margin. The pre-tax profit of $14,252,235 was

$3,092,078 higher than last year. The net profit of $7,132,235 was better than last year by $1,762,078.

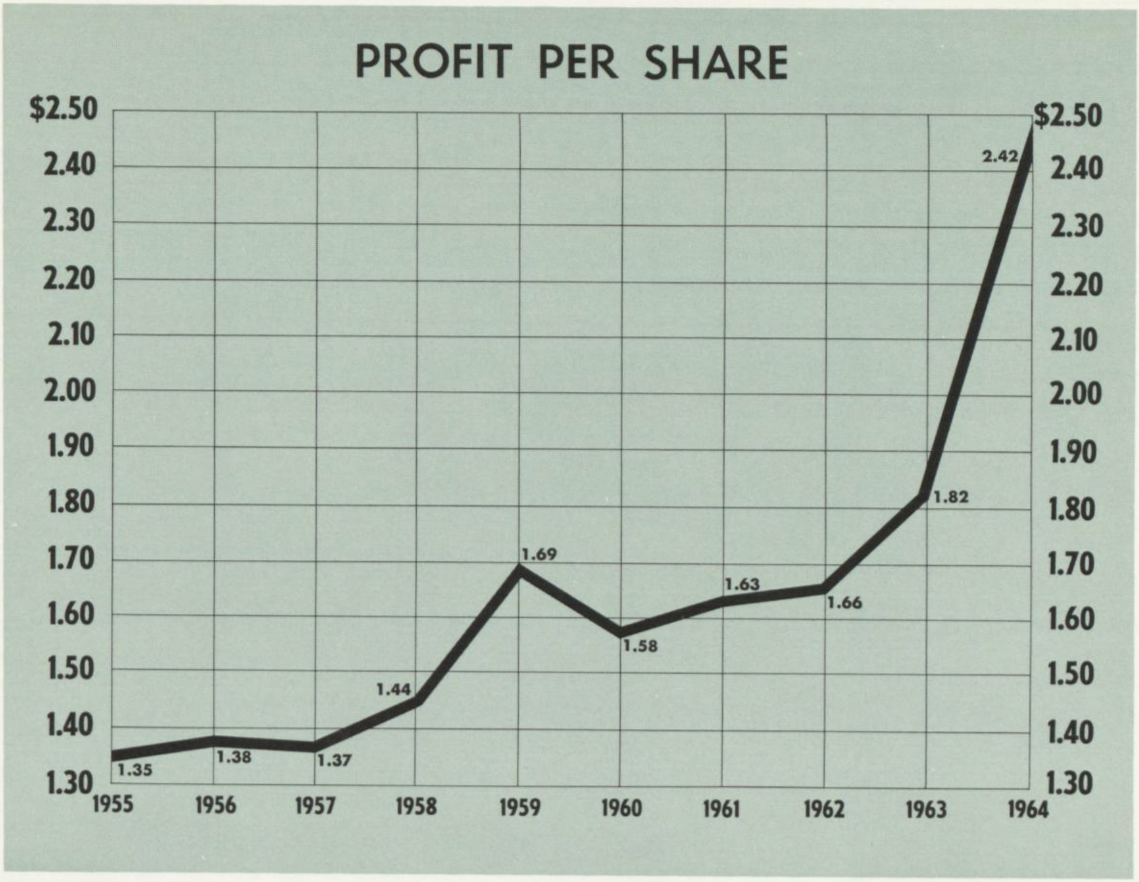
The percentage of pre-tax profit to sales was improved over last year by a little more than one full percentage point—from 5.8% to 6.9%.

The sales increase of $14,852,173 was the most important factor in the profit increase. Mark-up was about the same and there was an improvement in mark-downs. In expense control, the results were the best we have had for some time. The expense percentage to sales was reduced from last year. This reversed a trend of several years, during which the ratio of expenses to sales was creeping up steadily, in spite of management's strenuous efforts to halt the increase. The expense ratio for the year just closed was the lowest since 1958.

A year ago the profit was reduced by about 5 cents per share because of Canadian exchange. No comparable charge was required this year. The investment credit this year effected profits by about the same amount as last year. The reduction in Federal income tax rates improved the profit by about 9 cents per share.

The profit per share of $2.42 is a record high for our Company. Last year's figure of $1.82 was the previous high. The per-share earnings increased about 33%.

The chart on the opposite page gives the profit per share for the last ten years.



## Sales

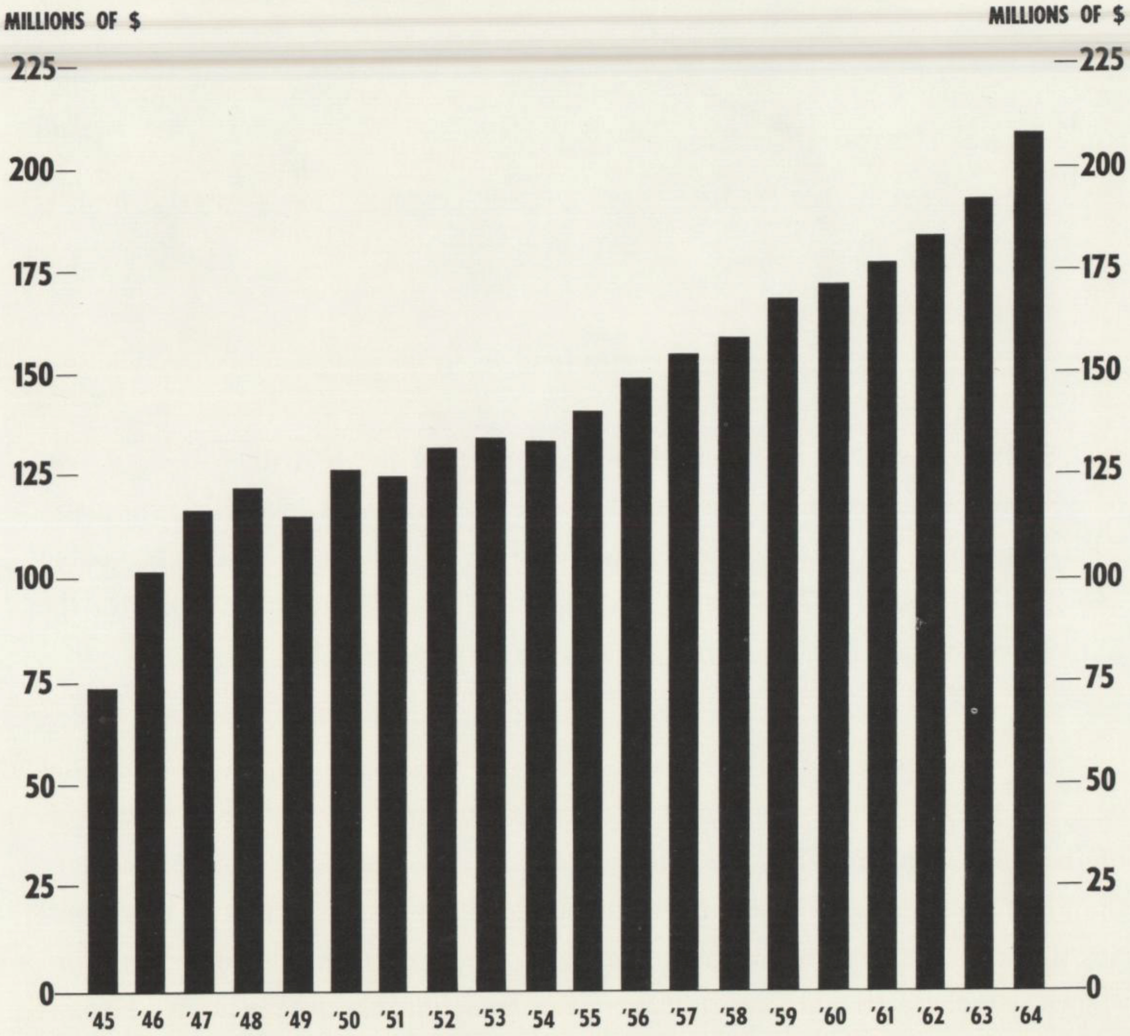
Sales topped the two hundred million mark for the first time in our Company. This is the tenth year in a row in which a new sales record has been set. The sales total of $207,260,905 was $14,852,173 larger than the preceding year, an increase of 7.7%. Sales in comparable stores which were open for the full twelve months in both years, showed an increase of 6.8%.

Our business in suburban stores continues to grow in importance. For the year just closed, 49% of our total sales came from these new stores—with 51% of the sales from the older downtown stores. This coming year will see more than half our business coming from the new suburban stores. In two communities we have closed the downtown store and replaced it with a suburban store (more detailed comments on this are given later on under the heading "Expansion").

These new suburban stores are fine stores indeed with colorful interiors and good parking facilities. Management believes these new stores are as attractive as one will find anywhere.

The chart below gives a quick picture of the total sales of the Company for the last twenty years. If we look back over the last twenty-five years, we find that there were only three years in which there was no sales increase. The last time that sales failed to go ahead of the year before, was 1954.

## SALES DURING PAST 20 YEARS



## Inventory

Merchandise inventories (including goods on hand and in transit) amounted to $30,124,294. This was higher than a year ago by $458,686, an increase of 1.5%. The percentage increase in inventories (1.5%) was less than the increase in sales (7.7%). The inventory turnover was improved over that of a year ago.

## Square Feet of Store Properties

At January 31, 1965 there were approximately 4,447,000 square feet of space in our store properties. This figure does not include separate warehouse properties. The square footage total given, represents the total space in our buildings. Part of this space is necessarily used for stockrooms, receiving areas, offices and other so-called "non-selling" functions.

## Dividends

The dividend rate was increased this past year by 20 cents per share. In each of the two preceding years the dividend rate was $1.00 per share. This was increased to $1.20 per share in the year just closed.

During this latest year, four quarterly dividend payments of 25 cents each were made on March 14th, June 15th, September 15th and December 15th. In December 1964, the Company announced its intention to increase the annual dividend rate from $1.00 to $1.20 per year. An extra dividend of 20 cents was paid on December 23, 1964 which made the total of $1.20 per share paid during the year just ended. For the year we are now in, the Company intends to pay dividends at the annual rate of $1.20 by making quarterly payments of 30 cents per share. The first quarterly dividend paid March 15, 1965 was at the new rate of 30 cents per share.

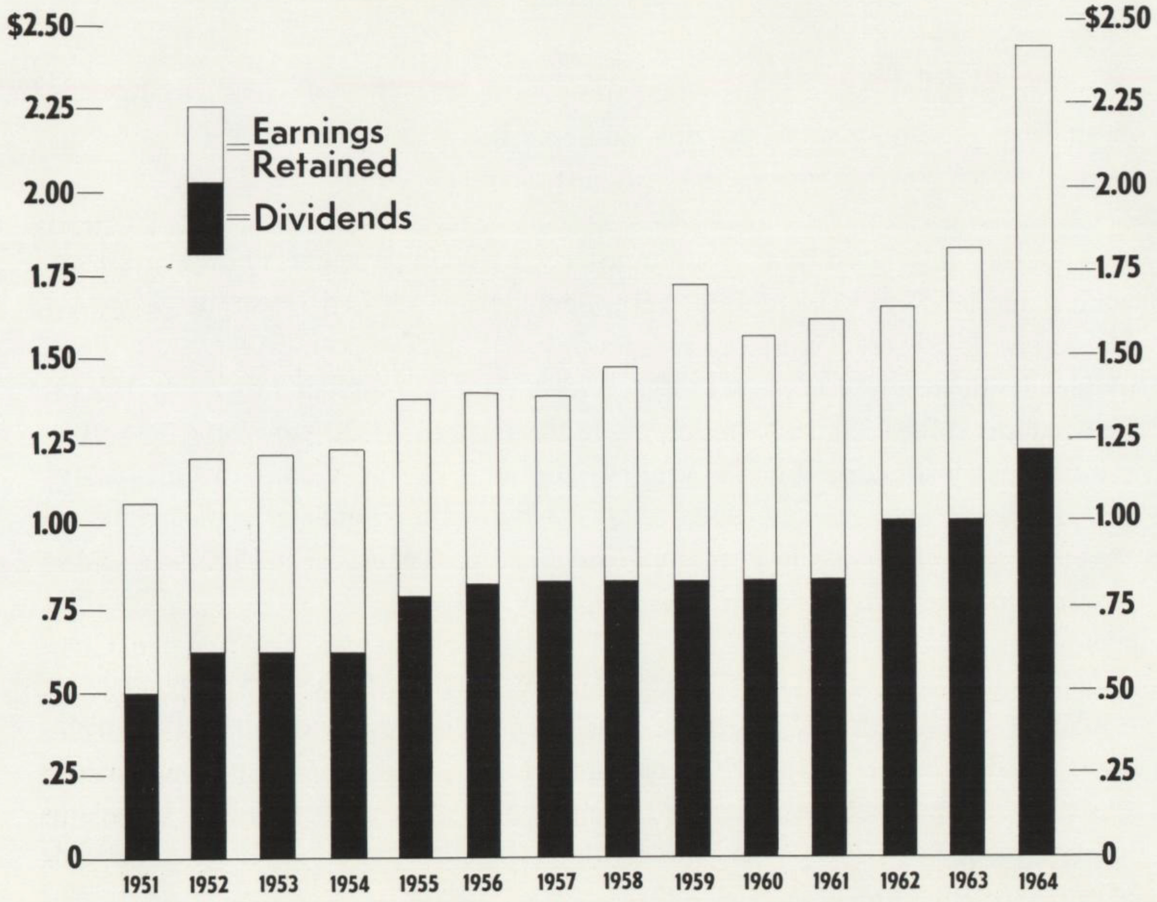
Total dividends paid during 1964 amounted to $3,537,382 which was $589,564 more than the preceding year. The dividends paid during last year were equal to about 50% of the net profit for the year. For the past ten years, the dividend pay-out has averaged about 55%—net profit for the ten years totaled about $48,010,000 and the dividends paid during those ten years totaled about $26,199,000.

The amount of dividends paid during the year just closed ($3,537,382) is nearly double the amount of dividends paid ten years ago ($1,809,999). The Company has paid dividends for the past twenty-five years without interruption, and the dividend has never been reduced during that time.

There were 5,589 stockholders in our Company at January 31, 1965.

The per-share amounts for earnings, dividends and retained earnings for the last fourteen years are shown in the chart below.

## EARNINGS, DIVIDENDS, AND RETAINED EARNINGS PER SHARE OF STOCK



## Expansion

One store was enlarged by about 50,000 square feet, but no new stores were opened during the twelve months ended January 31, 1965. It can be emphasized, however, that this lack of new store openings was not in any way the result of any curtailment in the Company's plans for expansion. Various problems confronted the developers of shopping centers in which we plan to open stores, and delays ensued. These problems had nothing to do with us. It might be pointed out that sometimes several years may elapse from the time we conditionally agree to go into a shopping center—until our store actually opens. In many instances the shopping center developer first gets a commitment from a leading department store, such as ourselves, and following that the developer must go out and sign up the other store tenants for the center. Then the developer must arrange his financing (frequently he borrows money from an insurance company). In some cases zoning matters have to be settled. In some instances, roads are being built—and completion of the roads may be vital to the success of the center. These, and other matters, frequently cause delays, with the result that it is impossible to follow a precise time schedule for opening new stores.

The store referred to above which was enlarged in 1964 was our Cherry Grove McAlpin Store in suburban Cincinnati, Ohio. The fine progress of this store indicates that it will make profitable use of the additional 50,000 square feet of space. The addition was completed in August, 1964.

Our downtown Joslin Store in Denver, Colorado is being completely modernized at a cost of about two million dollars. The work will be finished in May or June of this year. This will give the store a modern plant and will increase the space by about 32,000 square feet. This is another example of the Company's policy of keeping up our downtown stores. There are a few special circumstances which are exceptions, but for the most part we are continuing to maintain our downtown stores in up-to-date fashion. In Denver we now operate six branch stores and we expect to open another fine new branch store of about 80,000 square feet in suburban Denver. As things now stand, we expect this new Denver store will open in 1966.

As to the new year beginning February 1, 1965, we have already relocated one major store in February, 1965 and have opened one new store in March, 1965. One more new store may possibly be opened this fall.

The major store relocated in February, 1965 was in Montgomery, Alabama. We closed our downtown Montgomery Fair store, and eight days later opened a beautiful new store in the suburbs. The old store comprised about 140,000 square feet and the new store has about 167,000 square feet (about 120,000 square feet are in use now with the balance reserved for expansion). Our Montgomery Fair store has top acceptance in its community and has been operating there since 1868. Montgomery Fair now operates three stores—the new store, another suburban store (which was opened in 1957) and a store in the town of Opelika, Alabama, which is about sixty miles from Montgomery.

In March, 1965, we opened a fine store in a shopping center in Helena, Montana which is the capital city of that state. This store of about 42,000 square feet will operate as a branch of the Hennessy store located in Butte, Montana. Our store is the leading store in Butte. It started its business in Butte in 1885.

The Company has seven other contemplated new store locations in various stages of completion. We expect to continue to open an average of two new stores a year, plus various stores to be relocated and some to be enlarged.

Two stores were closed at the end of the year just finished—a downtown store in Columbia, South Carolina and a small store in Livingston, Montana. The sales of these two stores combined amounted to less than a million dollars. We are continuing our operation in Columbia, in a fine store in the suburban Richland Mall shopping center which we opened in 1961.

### CURRENT NUMBER OF STORES:

The stores currently in operation are listed in the front of this report. They consist of 19 major department stores, 41 branches and 4 small appliance stores. (The appliance stores are relatively unimportant—combined annual volume of the four stores is under $375,000.)

## Use of Electronic Data Processing

The Company made further progress during the year in applying electronic data processing methods to our business. We are spending more money for newer and better machines. We have added to the personnel in this part of our business. We have broadened the use of these machines by adding more of our stores on which the machines handle customer receivables, payrolls and departmental records. In merchandising, we are putting more time and effort into seeking new ways to best use these machines. One objective is to develop a method of forecasting the rate of sale of an item.

## Additions and Improvements to Physical Properties

The Company invested $3,770,776 in land, buildings and fixtures in the year just closed. This total is lower than the amount spent in recent years (the average per year for the last ten years is about $5,231,462). For the year we are now in, we expect capital expenditures will be in the neighborhood of $6,000,000.

The expenditures for the year under review were as follows:

| | |
|---|---|
| For new Stores | $ 821,542 |
| For enlarging and modernizing stores | 1,816,807 |
| For keeping existing properties in good condition | 1,132,427 |
| | $3,770,776 |

The expenditures of $1,816,807 for enlarging and modernization included $1,285,667 for the Joslin store in downtown Denver, Colorado.

Depreciation charged to operations for the year amounted to $3,413,289. This was $165,178 more than the preceding year. Quite apart from depreciation, the Company spent $706,315 for repairs and maintenance, which was charged to operations.

## Where the Funds Have Come From for the Expansion

The Company has invested $52,314,627 in its properties for new stores and improvements during the last ten years, as follows:

| Year Ended | Capital Expenditures |
|---|---|
| January 31, 1956 | $ 4,723,342 |
| January 31, 1957 | 9,876,679 |
| January 31, 1958 | 6,440,533 |
| January 31, 1959 | 5,945,457 |
| January 31, 1960 | 4,618,077 |
| January 31, 1961 | 3,743,852 |
| January 31, 1962 | 4,167,115 |
| January 31, 1963 | 4,883,272 |
| January 31, 1964 | 4,145,524 |
| January 31, 1965 | 3,770,776 |
| | $52,314,627 |

Nearly three quarters of the funds have come from retained earnings, with the remainder from long term borrowings and sale lease-back arrangements, as follows:

| | |
|---|---|
| From retained earnings | $37,647,767 |
| From increase in long term debt (ten years ago long term debt was $4,993,357 and currently it is $16,176,923—increase in ten years was $11,183,566) | 11,183,566 |
| Proceeds from three sale lease-back arrangements | 3,483,294 |
| | $52,314,627 |

## Long Term Debt

The long term debt was reduced during the year by $1,230,447. The total of the long term debt at January 31, 1965 was $16,176,923. There were no borrowings during the year to add to the debt. The regular payments of principal were made during the year, including $583,000 on the insurance company loans and $625,940 on the mortgages.

As to the Company's commitment under leases, there are currently 77 leases which extend more than 3 years. The minimum annual rentals under these leases aggregate approximately $2,022,000.

## Working Capital and Short Term Bank Loans

Working capital increased during the year by $2,033,919. The amount of working capital at the end of the year was $39,567,014. The ratio of current assets to current liabilities was 2.7 to 1 on January 31, 1965. The working capital continues to be entirely adequate for the current needs of the business.

During the fall season we borrowed $4,000,000 from banks under short term notes. These loans were all paid off before the end of the year.

## Profit Sharing and Pension Plans

The year was a good one for the Company's Profit Sharing Plan. The value of the fund increased about 18% from investment gains during the year, and record amounts were contributed into the Fund by our people and by the Company. The total dollar value in the Fund (at market value) increased from last year's total of $11,700,335 to the new total of $14,460,220. The latest total is summarized as follows:

| | |
|---|---|
| Accumulated from contributions by our people........ | $ 9,344,087 |
| Accumulated from Company contributions ........... | 5,116,133 |
| (Invested in 149,702 shares of Mercantile Stores stock) | |
| | $14,460,220 |

Our people in the Plan contributed $1,194,649 of their own money into the Fund during the year. The Company contribution (geared to profits) amounted to $529,065 ( a year ago the amount was $366,324). In the case of the Company, the contribution is an allowable deduction from taxable income.

As provided in the Plan, the Company contribution was allocated prorata among the people in the Plan, with the result that each participant's account was credited this year with approximately 54 cents for each dollar contributed by the individual (up to 6% of salary). A year ago the comparable figure was 40 cents.

A large bank acts as Trustee of the Fund. The money contributed by our people is invested in various securities which are considered to be conservative investments. The money contributed by the Company is invested in Mercantile Stores stock. During the year under review, the Fund purchased 19,400 shares of Mercantile Stores stock. These purchases were made in the open market—and the purchases were spaced out over twelve months.

There were 3,636 of our people in the Plan on February 1, 1965.

The strength of any Company lies in its people. This statement has been made so often by so many companies, that it may sound trite. Nevertheless, it continues to be true in our Company. It is very rare indeed that anyone in our organization who occupies a position of some responsibility, leaves us to go with a competitor. We believe the two most important underlying factors in this are (1) the Profit Sharing Plan and (2) the policy of promotion from within (filling positions as the need develops with people already in the organization—rather than going outside to hire someone).

The Company Pension Plan has been operating for twenty years. The cash and securities in the Plan at January 31, 1965 amounted to $7,144,607 (at market value). The Company pays the cost of the Pension Plan. Operations have been charged with $100,000 this year, compared with a cost of $234,448 for the preceding year. Securities in the Fund were sold during the year at prices well above the cost of such securities when purchased by the Fund. The profits realized on such sales resulted in the lowering of the cost to the Company. There were 2,662 of our people covered by the Pension Plan at January 31, 1965.

## Current Trend

This report is being written in March. It is difficult to evaluate how good business is, thus far in the new year, because of the calendar distortions. Last year (leap year) had one more selling day in February than this year (1965). In 1964, Easter fell in March, while in 1965 it falls in April. The latest sales report now available shows our sales in mid-March to be about 5% behind for the year, but after the Easter business is in, we expect to be a little ahead in sales for the first quarter, which ends April 30th.

## Cash Flow

The cash flow increased again this year. The cash flow total for the year of $10,572,000, was equal to $3.59 per share (last year $2.97). The figures for the past ten years are given below:

| | Net Profit | Depreciation | Deferred Income Tax | Cash Flow |
|---|---|---|---|---|
| January 31, 1965 .... | $7,132,000 | $3,413,000 | $ 27,000 | $10,572,000 |
| January 31, 1964 .... | 5,370,000 | 3,248,000 | 145,000 | 8,763,000 |
| January 31, 1963 .... | 4,888,000 | 2,933,000 | 262,000 | 8,083,000 |
| January 31, 1962 .... | 4,818,000 | 2,753,000 | 290,000 | 7,861,000 |
| January 31, 1961 .... | 4,658,000 | 2,559,000 | 352,000 | 7,569,000 |
| January 31, 1960 .... | 4,985,000 | 2,390,000 | 330,000 | 7,705,000 |
| January 31, 1959 .... | 4,219,000 | 2,706,000 | — | 6,925,000 |
| January 31, 1958 .... | 3,996,000 | 2,388,000 | — | 6,384,000 |
| January 31, 1957 .... | 4,027,000 | 1,973,000 | — | 6,000,000 |
| January 31, 1956 .... | 3,917,000 | 1,748,000 | — | 5,665,000 |

## Disposition of Funds

The net profit ($7,132,235) plus depreciation ($3,413,289) plus deferred income taxes ($27,000) gives a total of $10,572,524 of funds produced by the operations of the year.

The summary below gives a quick picture of what use was made of these funds.

| | | | |
|---|---|---|---|
| Total funds — | 100% | ($10,572,524) | |
| Disposition — | 33% | ($ 3,537,382) | paid out in dividends |
| | 36% | ( 3,770,776) | invested in capital assets |
| | 12% | ( 1,230,447) | used to pay off debt |
| | 19% | ( 2,033,919) | increased working capital (Note A) |
| | 100% | ($10,572,524) | |

*Note A*

The increase in working capital:

| | |
|---|---|
| Cash up | $ 229,474 |
| Receivables up | 1,290,838 |
| Inventory up | 458,686 |
| Current liabilities down | 73,840 |
| Miscellaneous | (18,919) |
| | $2,033,919 |

## Some Comments About Our Merchandising Policies

Our broad merchandising policy might be described as two pronged. On the one hand we sell large quantities of what is called private brand merchandise, and equally important is the selling of nationally advertised brand goods.

As to private brands, we have developed a real acceptance in our communities for many of our own brands. Many of these private brands have been advertised in our stores for twenty-five years or more. To illustrate, not long ago, a consumers research project in a large city (not conducted by us) brought out the fact that our Merville hosiery was the best known name for hose in that city (among all brands nationally advertised or private). A few examples of our own registered trademark brands are:

Merville hosiery
Royal Knight men's wear
First Lady home furnishings
Royal Heir infants and children's wear
Royal Deb girls' wear
Brookford men's clothing
Jean Sutton junior and women's fashions
Darcell millinery

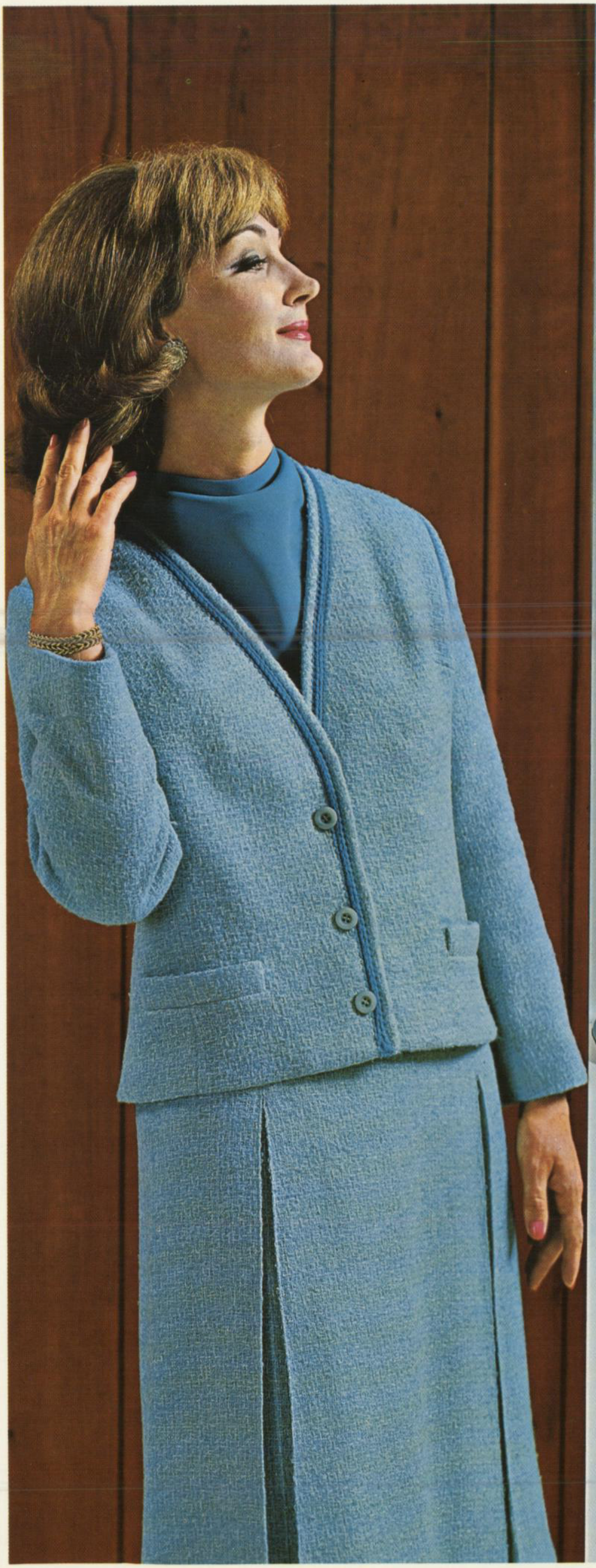
The Company's policy is to continue emphasis on further development of our own brands.

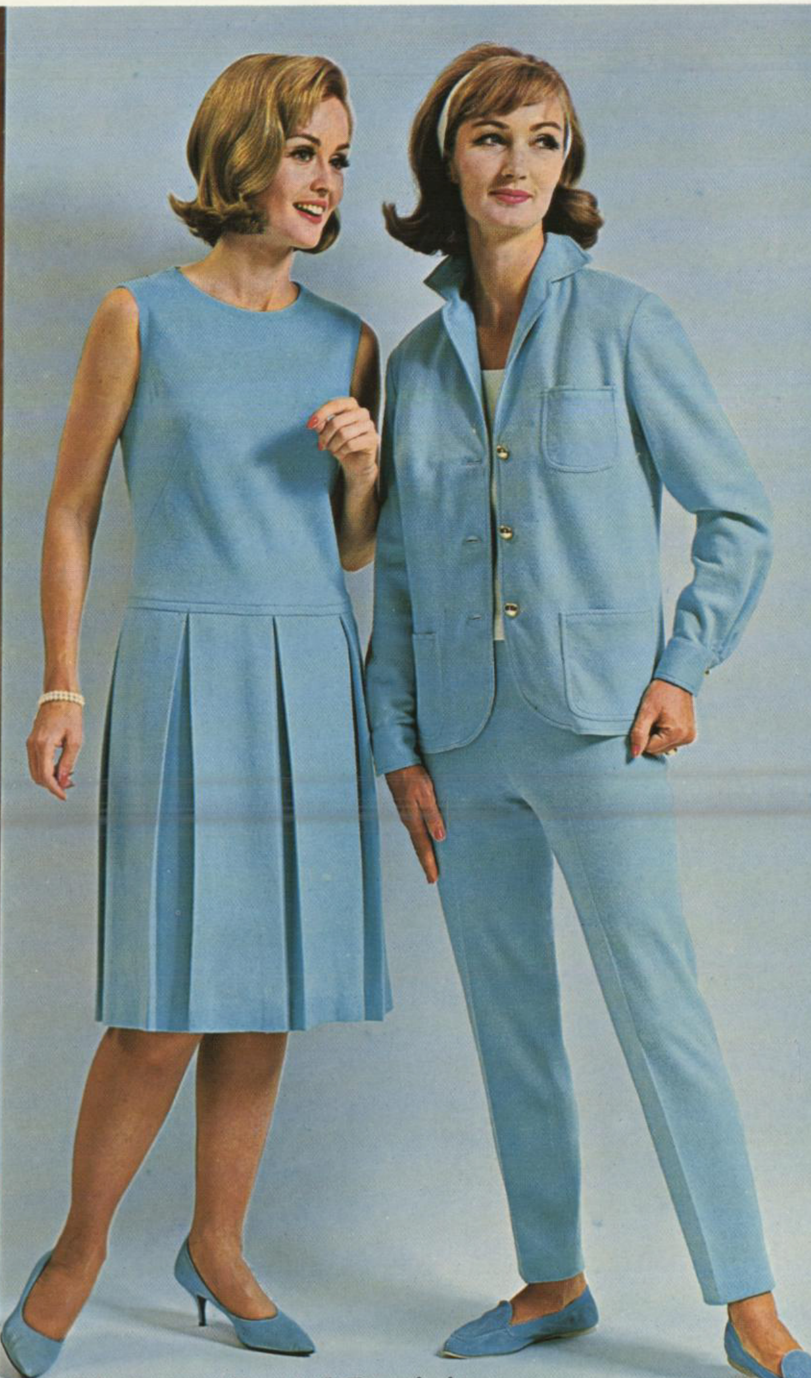
Then on the other hand, we actively sell the best of the national branded merchandise, including Arrow shirts, McGregor sportswear, Bobbie Brooks teen apparel, Majestic sportswear, R.& K. dresses and a host of others. This policy of selling both kinds of merchandise gives the customer a fine assortment from which to choose.

The matter of packaging is becoming increasingly important in our business. A great deal of time and effort is spent by our people in seeking the best packaging for our own label goods. Customer convenience is the number one objective. Attractive packaging, put up in good taste, and well displayed—sells goods.

This matter of customer convenience is all important—whether it be how refunds to customers are handled—how easy it is to see the merchandise—how clerks speak to customers—or some other facet of customer relationship—these are the things that are vital—in our thinking.

On the following two pages are illustrations of some of the merchandise we sell.





## *Majestic Pastel Parfaits*

IN BLUE GLACE' OR LEMON ICE

*Figure at Left:*
2A Mohair Parfait* jacket with braid outline. 17.99
2B Matching Dior-type pleated skirt. 12.99
2C Cowl-neck sleeveless crepe overblouse in a luxurious blend of 75% acetate and 25% rayon. 6.99

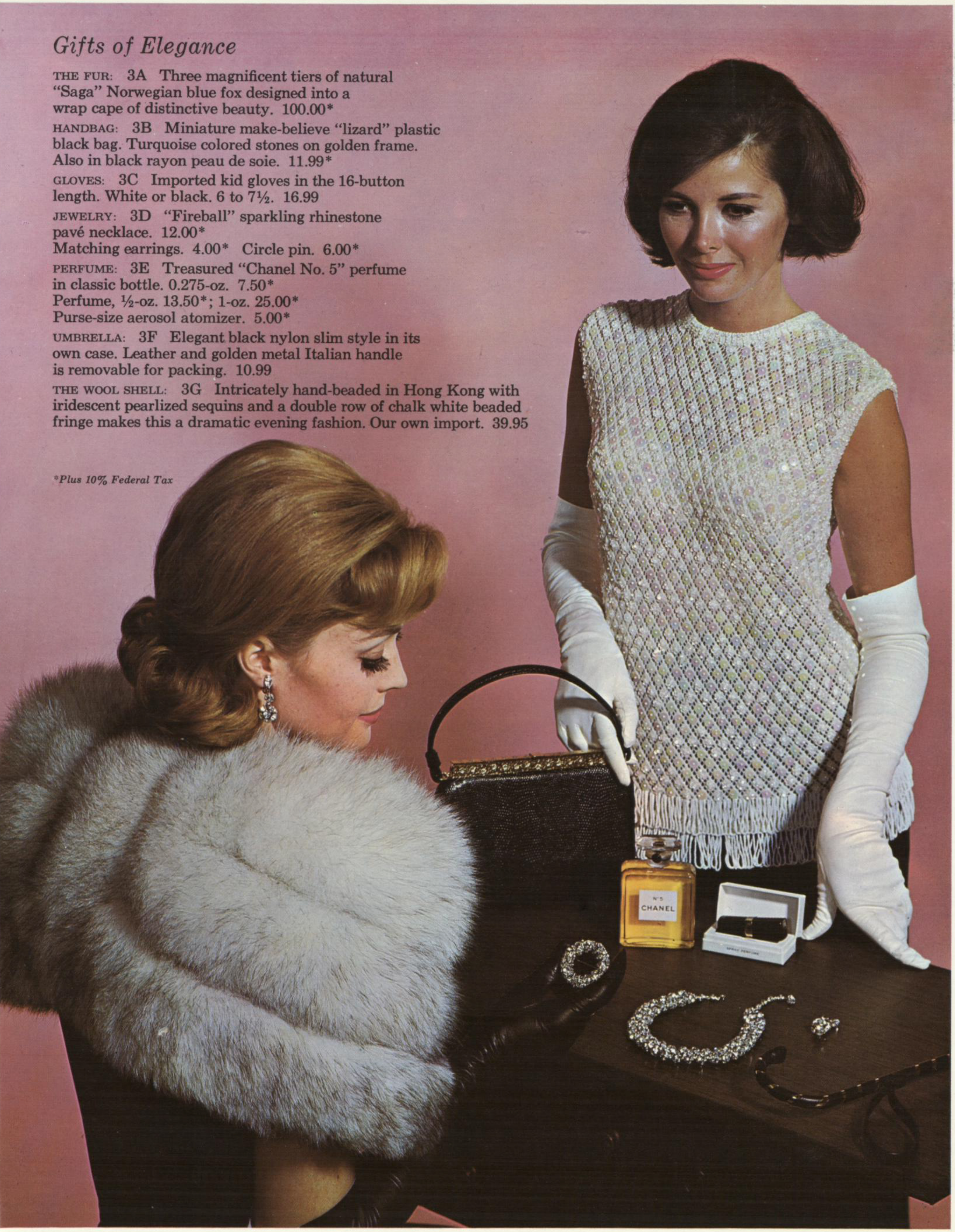
*Figure in Center:*
2D Pleated torso shift jumper of worsted wool jersey backed with acetate tricot to give it body. 17.99

*Figure at Right:*
● "The Very Newest Pants Suit" in the same material as the shift.
2E Shirt jacket with patch pockets. 14.99
2F Tapered slacks. 11.99
2G Scoop-neck shell in matching colors or white. 6.99

All in Sizes 8-18

**68% wool, 20% mohair, 7% rayon, 5% nylon*

*Copyright, 1964, Mercantile Stores Co., Inc., N.Y.C.*



## *Gifts of Elegance*

THE FUR: 3A Three magnificent tiers of natural "Saga" Norwegian blue fox designed into a wrap cape of distinctive beauty. 100.00*

HANDBAG: 3B Miniature make-believe "lizard" plastic black bag. Turquoise colored stones on golden frame. Also in black rayon peau de soie. 11.99*

GLOVES: 3C Imported kid gloves in the 16-button length. White or black. 6 to 7½. 16.99

JEWELRY: 3D "Fireball" sparkling rhinestone pavé necklace. 12.00*
Matching earrings. 4.00* Circle pin. 6.00*

PERFUME: 3E Treasured "Chanel No. 5" perfume in classic bottle. 0.275-oz. 7.50*
Perfume, ½-oz. 13.50*; 1-oz. 25.00*
Purse-size aerosol atomizer. 5.00*

UMBRELLA: 3F Elegant black nylon slim style in its own case. Leather and golden metal Italian handle is removable for packing. 10.99

THE WOOL SHELL: 3G Intricately hand-beaded in Hong Kong with iridescent pearlized sequins and a double row of chalk white beaded fringe makes this a dramatic evening fashion. Our own import. 39.95

**Plus 10% Federal Tax*

## Realignment of Top Management

As announced in the newspapers last fall, R. Nelson Shaw was elected President of our Company, in October, 1964 to succeed F. K. Bradley who was elected Vice-Chairman of the Board. Harold W. Jockers, Chairman of the Board, continues as chief executive officer of the Company.

Mr. Shaw has been with the Company for twenty-nine years. For many years prior to assuming the Presidency, he was the president and general manager of our McAlpin division which operates five stores in Cincinnati, Ohio. Mr. Shaw was elected a Vice-President of the parent company in 1957 and in 1962 became Executive Vice-President and joined the Board of Directors.

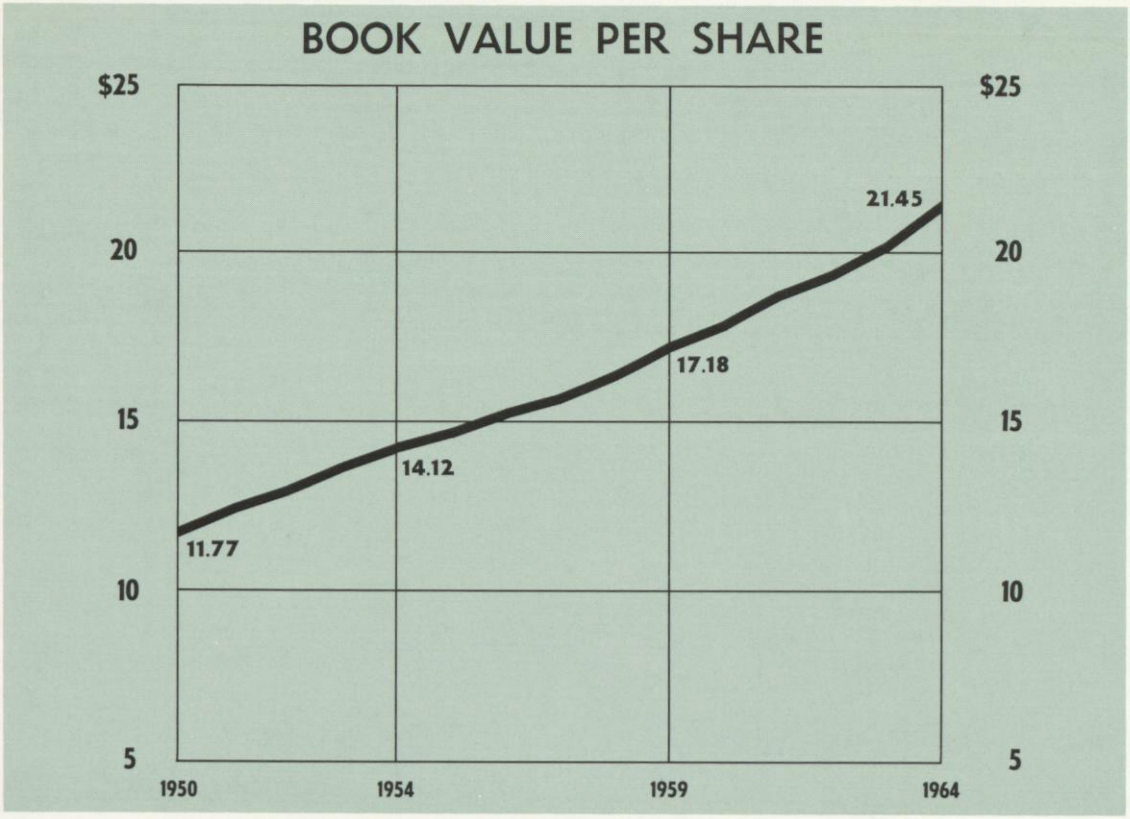
Mr. Bradley had been President since 1960. He has become Vice-Chairman, a newly formed position in the Company. It was his wish that he step down at this time from the day to day responsibilities of the Presidency. He has been a great strength in the leadership of the business and we are happy that he is continuing to serve the Company. He will direct several special projects on which the Company has embarked including the expanding use of computers.

## Various

The number of people regularly employed by the Company totals about 8,300. In peak periods the number exceeds 12,000.

The accumulated total of earnings retained for use in the business (earned surplus) amounted to $51,673,979 at the end of the year, after an increase of $3,594,853 during the year.

The net worth (book value of the common stock) of the Company topped $60,000,000 for the first time. At the end of the year the figure was $63,223,394. The book value per share has increased every year for over twenty-five years (after appropriately adjusting for stock splits). The book value at January 31, 1965 was $21.45 per share. Opposite is a chart showing the per-share figures over the last fifteen years.



The financial statements for the year are given on the following pages, together with the report of our auditors, Arthur Andersen & Co., independent public accountants. Following that is a twenty-five year summary of the highlights of our business, together with a ten year comparison of balance sheets.

This report gives us an opportunity to publicly thank the people in our Company. Without their loyal cooperation, no real progress could be achieved. We also take pride in the fine relationships established with the concerns which sell us merchandise, and our thanks go to them for their help.

Respectfully submitted,

Harold W Jorkers

*Chairman of the Board*

R. Nelson Shaw

*President*

ARTHUR ANDERSEN & CO.

80 PINE STREET
NEW YORK, N. Y. 10005

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,
MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1965, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
March 26, 1965.

# MERCANTILE STORES COMPANY, INC.

## AND SUBSIDIARY COMPANIES

### STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS

For the Year Ended January 31, 1965

### PROFIT AND LOSS

| | | |
|---|---|---|
| Net sales, including sales of leased departments | | $207,260,905 |
| Cost of goods sold, selling, operating and administrative expenses, including depreciation of $3,413,289, less service charge income of $3,462,296 | | 191,722,236 |
| Operating profit | | $ 15,538,669 |
| Other expenses (net): | | |
| Interest expense | $1,630,973 | |
| Less—Miscellaneous income (net) | 344,539 | 1,286,434 |
| Profit before provision for income taxes | | $ 14,252,235 |
| Provision for Income Taxes: | | |
| Federal taxes | $6,520,000 | |
| State and Canadian taxes | 600,000 | 7,120,000 |
| Net profit for the year | | $ 7,132,235 |

### CAPITAL SURPLUS

| | |
|---|---|
| Balance, January 31, 1965 (no change during the year) | $ 6,145,082 |

### EARNINGS RETAINED FOR USE IN THE BUSINESS (EARNED SURPLUS)

| | |
|---|---|
| Balance, January 31, 1964 | $ 48,079,126 |
| Add: | |
| Net profit for the year | 7,132,235 |
| | $ 55,211,361 |
| Dividends declared on common stock—$1.20 per share | 3,537,382 |
| Balance, January 31, 1965 (see Note) | $ 51,673,979 |

The note on the accompanying consolidated balance sheet is an integral part of the above statements.

# MERCANTILE STO

## AND SUBSIDIARY

## CONSOLIDATED BALANCE

### ASSETS

| | | | |
|---|---|---|---|
| **Current Assets:** | | | |
| Cash | | | $ 8,806,103 |
| Accounts receivable— | | | |
| Customers accounts— | | | |
| Regular retail accounts | | $ 9,381,643 | |
| Installment accounts not sold | | 1,617,981 | |
| Equity in accounts sold (the uncollected balances of which amounted to $24,323,359) | | 12,064,180 | |
| Other accounts | | 728,454 | |
| | | $23,792,258 | |
| Less—Reserve for doubtful accounts | | 1,945,331 | 21,846,927 |
| Merchandise inventories, priced at the lower of cost or market | | | 30,124,294 |
| U. S. Government and other marketable securities, at cost, approximately equal to market | | | 1,575,917 |
| Unexpired insurance, prepaid rent, etc. | | | 854,128 |
| Total current assets | | | $ 63,207,369 |
| **Property and Fixtures, at cost:** | | | |
| Land | | $ 7,782,667 | |
| Buildings and building improvements | $39,868,863 | | |
| Less—Accumulated depreciation | 16,395,461 | 23,473,402 | |
| Store fixtures, etc. | $19,383,961 | | |
| Less—Accumulated depreciation | 9,400,727 | 9,983,234 | 41,239,303 |
| | | | $104,446,672 |

# RES COMPANY, INC.

## COMPANIES

## SHEET — JANUARY 31, 1965

### LIABILITIES

| | | |
|---|---|---|
| **Current Liabilities:** | | |
| Accounts payable | | $ 10,963,711 |
| Accrued taxes (other than Federal income), compensation, rent, etc. | | 6,838,298 |
| Reserve for Federal income taxes | | 4,607,899 |
| Current maturities of long-term debt | | 1,230,447 |
| Total current liabilities | | $ 23,640,355 |
| **Long-Term Debt:** | | |
| Notes payable to an insurance company (see Note)— | | |
| 3⅜% notes, $250,000 due annually | $ 500,000 | |
| 5⅛% notes, $333,000 due annually | 6,501,000 | |
| Mortgage notes payable, due in installments over the life of each mortgage, most of which are twenty-year mortgages | 9,175,923 | 16,176,923 |
| **Deferred Federal Income Taxes** | | 1,406,000 |
| **Capital Stock and Surplus:** | | |
| Common stock, par value $1.83⅓ per share— | | |
| Authorized and issued 2,950,998 shares | $ 5,410,163 | |
| Less—3,180 shares held in treasury | 5,830 | |
| Outstanding 2,947,818 shares | $ 5,404,333 | |
| Capital surplus | 6,145,082 | |
| Earnings retained for use in the business (earned surplus) (see Note) | 51,673,979 | 63,223,394 |
| | | $104,446,672 |

NOTE:

The loan agreement relating to the 5⅛% notes payable to an insurance company provides for repayment in annual installments of $333,000 with a balance of $2,500,000 due on December 1, 1978.

Under the terms of the insurance company loan agreements, payment of cash dividends after January 31, 1958, is restricted to 70% of the net income (as defined) after that date. As of January 31, 1965, accumulated undistributed earnings of $4,750,000 are free of this restriction.

# MERCANTILE STO

## AND SUBSIDIARY

### TWENTY-FIVE YEAR COMPARISON OF SALES,

| Fiscal Year Ended January 31 | Net Sales | Profit Before Income Taxes | Income Taxes | Net Profit | Net Profit Per Share (Note A) |
|---|---|---|---|---|---|
| 1965 | $207,260,905 | $14,252,235 | $7,120,000 | $7,132,235 | $2.42 |
| 1964 | 192,408,732 | 11,160,157 | 5,790,000 | 5,370,157 | 1.82 |
| 1963 | 183,840,305 | 10,297,664 | 5,410,000 | 4,887,664 | 1.66 |
| 1962 | 175,820,970 | 10,068,178 | 5,250,000 | 4,818,178 | 1.63 |
| 1961 | 170,247,354 | 9,668,412 | 5,010,000 | 4,658,412 | 1.58 |
| 1960 | 167,799,529 | 10,375,430 | 5,390,000 | 4,985,430 | 1.69 |
| 1959 | 157,915,790 | 8,709,061 | 4,490,000 | 4,219,061 | 1.44 |
| 1958 | 153,994,341 | 8,177,638 | 4,182,000 | 3,995,638 | 1.37 |
| 1957 | 148,773,457 | 8,086,964 | 4,060,000 | 4,026,964 | 1.38 |
| 1956 | 138,785,704 | 8,036,717 | 4,120,000 | 3,916,717 | 1.35 |
| 1955 | 130,366,021 | 6,970,553 | 3,420,000 | 3,550,553 | 1.23 |
| 1954 | 130,882,985 | 6,933,491 | 3,410,000 | 3,523,491 | 1.22 |
| 1953 | 128,603,624 | 7,080,850 | 3,620,000 | 3,460,850 | 1.19 |
| 1952 | 124,699,947 | 6,442,260 | 3,322,000 | 3,120,260 | 1.05 |
| 1951 | 125,427,006 | 9,397,003 | 4,290,000 | 5,107,003 | 1.72 |
| 1950 | 112,607,776 | 5,932,129 | 2,325,000 | 3,607,129 | 1.21 |
| 1949 | 119,091,512 | 8,369,725 | 3,243,000 | 5,126,725 | 1.72 |
| 1948 | 113,012,702 | 8,444,538 | 3,286,000 | 5,158,538 | 1.73 |
| 1947 | 103,007,184 | 10,800,760 | 4,618,000 | 4,682,760 | 1.57 |
| 1946 | 74,407,149 | 5,894,901 | 4,084,000 | 1,810,901 | .60 |
| 1945 | 59,668,304 | 6,633,941 | 4,854,000 | 1,779,941 | .59 |
| 1944 | 50,277,807 | 4,700,875 | 3,276,760 | 1,424,115 | .47 |
| 1943 | 41,173,113 | 3,340,264 | 2,118,645 | 1,221,619 | .41 |
| 1942 | 34,867,853 | 1,912,941 | 812,165 | 1,100,776 | .37 |
| 1941 | 29,509,394 | 939,991 | 278,548 | 661,443 | .21 |

NOTE A:

In the above table wherever "Per Share" figures are given, such figures are all based on the stock after the 10 for 1 split in 1946 and the 2-for-1 split in 1962 and all prior year figures have been appropriately restated.

# RES COMPANY, INC.

## COMPANIES

### EARNINGS AND RETAINED EARNINGS

| DIVIDENDS PAID | | | | |
|---|---|---|---|---|
| Common | | | | |
| Per Share (Note A) | Amount | Preferred Amount | Retained Earnings (Earned Surplus) | Book Value Per Share (Note A) |
| $ 1.20 | $3,537,382 | —— | $51,673,979 | $21.45 |
| 1.00 | 2,947,818 | —— | 48,079,126 | 20.23 |
| 1.00 | 2,947,818 | —— | 45,656,787 | 19.41 |
| .82½ | 2,431,950 | —— | 43,716,941 | 18.75 |
| .82½ | 2,431,950 | —— | 41,330,713 | 17.94 |
| .82½ | 2,423,777 | —— | 39,104,251 | 17.18 |
| .82½ | 2,415,029 | —— | 36,542,598 | 16.35 |
| .82½ | 2,411,835 | —— | 34,738,566 | 15.74 |
| .82½ | 2,402,442 | —— | 31,654,763 | 15.22 |
| .77½ | 2,248,742 | —— | 30,030,241 | 14.68 |
| .62½ | 1,809,999 | —— | 28,362,266 | 14.12 |
| .62½ | 1,809,999 | —— | 26,621,712 | 13.52 |
| .62½ | 1,836,849 | $ 4,375 | 24,908,220 | 12.92 |
| .50 | 1,470,404 | 17,500 | 22,915,344 | 12.32 |
| .50 | 1,471,295 | 19,240 | 21,651,863 | 11.77 |
| .50 | 1,481,220 | 22,040 | 18,035,395 | 10.03 |
| .50 | 1,481,220 | 24,701 | 15,931,526 | 9.32 |
| .50 | 1,481,220 | 25,676 | 12,310,722 | 8.10 |
| .50 | 1,481,220 | 25,676 | 8,659,080 | 6.86 |
| .12½ | 370,305 | 25,676 | 5,483,216 | 5.79 |
| .12½ | 370,305 | 28,451 | 4,068,296 | 5.31 |
| .12½ | 368,930 | 36,176 | 2,687,111 | 4.84 |
| .12½ | 361,255 | 37,133 | 1,668,102 | 4.60 |
| .10 | 290,444 | 40,187 | 844,871 | 4.29 |
| .10 | 289,612 | 41,732 | 74,726 | 4.03 |

# MERCANTILE STO

## AND SUBSIDIARY

### TEN YEAR COMPARISON OF

| | *January 31,* | | | |
|---|---|---|---|---|
| **ASSETS** | *1965* | *1964* | *1963* | *1962* |
| Cash and Marketable Securities | $ 10,382,020 | $ 10,139,787 | $ 9,000,576 | $ 9,832,526 |
| Receivables, less Reserve | 21,846,927 | 20,556,089 | 27,225,565 | 15,778,321 |
| Merchandise Inventories | 30,124,294 | 29,665,608 | 28,926,550 | 27,070,761 |
| Prepaid Expenses | 854,128 | 885,806 | 723,221 | 914,171 |
| TOTAL CURRENT ASSETS | $ 63,207,369 | $ 61,247,290 | $ 65,875,912 | $53,595,779 |
| Fixed Assets (Net) | 41,239,303 | 40,881,816 | 39,765,753 | 38,020,878 |
| | $104,446,672 | $102,129,106 | $105,641,665 | $91,616,657 |

| **LIABILITIES** | | | | |
|---|---|---|---|---|
| Current Liabilities | $ 23,640,355 | $ 23,714,195 | $ 28,585,153 | $18,298,178 |
| Long-Term Debt | 16,176,923 | 17,407,370 | 18,616,310 | 17,080,123 |
| Deferred Federal Income Taxes | 1,406,000 | 1,379,000 | 1,234,000 | 972,000 |
| Capital Stock | 5,404,333 | 5,404,333 | 5,404,333 | 5,404,333 |
| Surplus Reserve | — | — | — | — |
| Surplus | 57,819,061 | 54,224,208 | 51,801,869 | 49,862,023 |
| | $104,446,672 | $102,129,106 | $105,641,665 | $91,616,657 |
| Net Working Capital | $ 39,567,014 | $ 37,533,095 | $ 37,290,759 | $35,297,601 |

# RES COMPANY, INC.

## COMPANIES

### CONDENSED BALANCE SHEETS

*January 31,*

| *1961* | *1960* | *1959* | *1958* | *1957* | *1956* |
|---|---|---|---|---|---|
| $ 8,374,386 | $ 7,782,702 | $ 8,517,822 | $ 6,910,994 | $ 7,048,251 | $ 7,129,398 |
| 15,120,028 | 14,741,032 | 12,985,902 | 12,491,754 | 13,302,895 | 10,020,053 |
| 26,087,816 | 27,429,533 | 24,562,675 | 24,511,645 | 24,794,615 | 24,115,864 |
| 1,171,057 | 1,057,629 | 1,029,165 | 1,238,460 | 990,185 | 886,610 |
| $50,753,287 | $51,010,896 | $47,095,564 | $45,152,853 | $46,135,946 | $42,151,925 |
| 36,873,849 | 36,837,080 | 36,651,716 | 33,562,828 | 29,794,822 | 21,892,498 |
| $87,627,136 | $87,847,976 | $83,747,280 | $78,715,681 | $75,930,768 | $64,044,423 |

| | | | | | |
|---|---|---|---|---|---|
| $16,214,399 | $18,257,857 | $21,019,367 | $17,206,139 | $17,652,613 | $15,837,947 |
| 17,850,609 | 18,606,453 | 14,828,883 | 15,447,820 | 13,892,909 | 5,562,865 |
| 682,000 | 330,000 | — | — | — | — |
| 5,404,333 | 5,404,333 | 5,369,591 | 5,363,872 | 5,347,188 | 5,326,105 |
| — | — | — | — | 1,500,000 | 1,500,000 |
| 47,475,795 | 45,249,333 | 42,529,439 | 40,697,850 | 37,538,058 | 35,817,506 |
| $87,627,136 | $87,847,976 | $83,747,280 | $78,715,681 | $75,930,768 | $64,044,423 |
| $34,538,888 | $32,753,039 | $26,076,197 | $27,946,714 | $28,483,333 | $26,313,978 |